

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Beecher Metropolitan District	County Genesee
Audit Date June 30, 2004	Opinion Date October 28, 2004	Date Accountant Report Submitted to State:		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

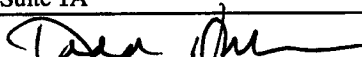
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 E. Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature  Tadd A. Harburn, CPA			

Financial Statements
Beecher Metropolitan District
Flint, Michigan
June 30, 2004

**Beecher Metropolitan District
Financial Statements
For the Fiscal Year Ended June 30, 2004**

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**Beecher Metropolitan District
List of Elected, Civil Service, and Appointed Officials**

Leo McClain	President
John Miller	Vice President
Corrine McFadden	Secretary
Audrey Chapman	Treasurer
Jackie Corlew	Trustee
Richard L. Wurtz	Administrator

Independent Auditors' Report

District Commission
Beecher Metropolitan District
1057 West Louis Avenue
Flint, Michigan 48505

We have audited the financial statements of the business type activities of the Beecher Metropolitan District (District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IC, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and analysis – for State and Local Governments*, and related statements as of June 30, 2004.

In our opinion, the basic financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the business type activities of the Beecher Metropolitan District at June 30, 2004, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 and 5 and the information in the required supplementary information section on page 16 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express not opinion on them.

BKR Dupuis & Ryden

Certified Public Accountants
Flint Office

October 28, 2004

Management's Discussion and Analysis

Beecher Metropolitan District Management's Discussion and Analysis

As management of the Beecher Metropolitan District ("District"), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The District has net assets of \$7.5 million. These net assets result from the difference between total assets of \$7.9 million and total liabilities of \$401,000.
- Current assets of \$2.7 million primarily consist of cash and cash equivalents of \$2.2 million; receivables of \$435,238; and inventory of \$82,132.
- Current liabilities of \$401,923 consist of government payables of \$193,518; and customer deposits of \$208,405.

Basic Financial Statements and Presentation

New Accounting Pronouncements

Effective July 1, 2003, the District implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the District's presentation of net assets and change the note disclosure and require the inclusion of management's discussion and analysis.

The financial statements presented by the District are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The District is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Balance Sheet presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the District's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses.

The Statement of Cash Flows allows financial statement users to assess the District's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the District

The largest portion of the District's net assets reflects investment in capital assets consisting of water and sewer lines and related buildings and equipment used for operations. The District uses these capital assets to provide water and sewer services to residents of Mt. Morris and Genesee Township.

Financial Operating Results

Revenues

Operating revenues are summarized into the following categories:

Charges for Services – Fees for providing water distribution and sewer collection and treatment are charged to customers. Revenues are also generated by providing repair services to customers and the receipt of fees for late payments.

Property Tax – This dedicated 3.5979 mill tax is levied to residents of Genesee and Mt. Morris Township. For 2004, approximately 15% of the District's revenues came from the tax.

Expenses

Expenses reported all relate to the provision of water and sewer services to customers. The largest expense is the sewer treatment fees paid to the City of Flint which represents 31.4% of total expenses.

Request for Information

This financial report is designed to provide a general overview of the District's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Richard Wurtz, Administrator, Beecher Metropolitan District, 1057 Louis Avenue, Flint, Michigan 48505.

Basic Financial Statements

Beecher Metropolitan District
Balance Sheets
Proprietary Fund Type - Water and Sewer Enterprise Fund
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ 1,981,760	\$ 2,604,153
Receivables:		
Accounts	254,404	275,029
Unbilled accounts	88,298	88,761
Due from other governments	92,536	101,627
Inventories	82,132	92,937
Restricted assets:		
Cash and cash equivalents	222,680	223,565
Fixed assets - net of accumulated depreciation	<u>5,264,924</u>	<u>5,317,741</u>
Total assets	<u>7,986,734</u>	<u>8,703,813</u>
Liabilities		
Accounts payable	-	3,404
Accrued liabilities	-	6,282
Due to other governments	193,518	127,963
Payable from restricted assets:		
Customer deposits	<u>208,405</u>	<u>204,202</u>
Total liabilities	<u>401,923</u>	<u>341,851</u>
Net Assets		
Invested in capital assets, net of related debt	5,264,924	5,317,741
Restricted for:		
Capital improvements	339,425	339,425
Employee benefits	15,265	19,363
Unrestricted	<u>1,965,197</u>	<u>2,685,433</u>
Total net assets	<u>\$ 7,584,811</u>	<u>\$ 8,361,962</u>

See notes to financial statements.

Beecher Metropolitan District
Statements of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type - Water and Sewer Enterprise Fund
Years Ended June 30, 2004 and 2003

	Totals	
	2004	2003
Operating revenues:		
Charges for services:		
Metered water sales	\$ 469,605	\$ 502,011
Sewer service fees	1,066,092	1,029,561
Parts and service	24,434	27,853
Penalties	56,548	56,883
Other income	56,897	54,530
Total operating revenues	1,673,576	1,670,838
Operating expenses:		
Administrative and engineering	918,411	890,174
Accounting and collections	10,379	25,964
Plant maintenance - sewer	114,386	103,907
Plant maintenance - mains, tower & connections	181,167	194,032
Machinery and equipment maintenance	11,153	8,025
Water pumping - wells, distribution	104,421	125,648
Sanitary sewer line maintenance	23,174	11,759
Sanitary sewer weep tile project	255,823	327,607
Sewage pumping	63,679	57,471
Sewage treatment	880,254	531,453
Tools and working equipment expense	1,464	2,176
Automobile and truck expense	23,604	13,924
Depreciation	207,192	207,723
Total operating expenses	2,795,107	2,499,863
Operating loss	(1,121,531)	(829,025)
Nonoperating revenues (expenses):		
Tax revenues	314,228	307,987
Interest income	30,966	52,651
Loss on sale of assets	(814)	(934)
Total nonoperating revenues	344,380	359,704
Net loss	(777,151)	(469,321)
Net assets - beginning of year	8,361,962	8,831,283
Net assets - end of year	\$ 7,584,811	\$ 8,361,962

See notes to financial statements.

Beecher Metropolitan District
Statements of Cash Flows
Proprietary Fund Type - Water and Sewer Enterprise Fund
Years Ended June 30, 2004 and 2003

	Totals	
	2004	2003
Cash flows from operating activities:		
Cash received from customers	\$ 1,694,664	\$ 1,647,089
Cash payments to suppliers	(1,733,236)	(1,632,554)
Cash payments to employees	(783,802)	(701,109)
Net cash used in operating activities	(822,374)	(686,574)
Cash flows from capital and related financing activities:		
Purchases of fixed assets	(155,189)	(35,182)
Net cash used in capital and related financing activities	(155,189)	(35,182)
Cash flows from noncapital financing activities:		
Property tax collections	323,319	330,406
Net cash provided by noncapital financing activities	323,319	330,406
Cash flows from investing activities:		
Interest earned	30,966	57,820
Net investment sales	-	506,407
Net cash provided by investing activities	30,966	564,227
Net increase (decrease) in cash and cash equivalents	(623,278)	172,877
Cash and cash equivalents - beginning of year	2,827,718	2,654,841
Cash and cash equivalents - end of year	\$ 2,204,440	\$ 2,827,718
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,121,531)	\$ (829,025)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	207,192	207,723
Changes in operating assets and liabilities:		
Accounts receivable	21,088	(23,749)
Inventories	10,805	(2,735)
Accounts payable	(3,404)	(25,022)
Accrued liabilities	(6,282)	6,282
Due to other governments	65,555	(24,739)
Customer deposits	4,203	4,691
Net cash used in operating activities	\$ (822,374)	\$ (686,574)

See notes to financial statements.

Notes to Basic Financial Statements

Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004

I. Summary of significant accounting policies

A. Reporting entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Beecher Metropolitan District (the primary government) and its component units. Component units are legally separate entities which are included in the District's reporting entity because of the significance of their operational or functional relationships with the primary government. Beecher Metropolitan District had no component units at June 30, 2004.

B. Basis of accounting

The accounts of the District, which are organized as an enterprise fund, are used to account for the District's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the District maintains its records on the accrual basis of accounting. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues from operations, investments, and other sources are recorded when earned. Expenses of providing services to the public are accrued when incurred.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property tax revenue and interest income. On an accrual basis, revenue from property taxes is recognized in the current fiscal year.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the option of following subsequent private-sector guidance, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance as it relates to its operations.

C. New accounting pronouncements

Effective July 1, 2003, the District implemented the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", Statement No. 37, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus", and Statement No. 38 "Certain Financial Statement Disclosures". These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the District's presentation of net assets and require the inclusion of management's discussion and analysis.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity

1. Cash and cash equivalents

Deposits are carried at cost plus accrued interest and consist of checking accounts, savings deposits, and certificates of deposits. The carrying value of deposits is separately displayed on the balance sheet as "cash and cash equivalents". For the purposes of the cash flow statement, the District considers all highly liquid investments with a maturity of ninety days or less at the date of purchase to be cash and cash equivalents.

2. Investments

Investments consist of overnight repurchase agreements and are recorded on the balance sheet as cash equivalents at fair value.

3. Inventories

Inventories are stated at the lower of cost or market value, on a first-in, first-out basis. Inventories shown consist of expendable supplies held for consumption. The cost value is recorded as an asset until used, at which time it is recorded as an expense.

4. Capital assets

Capital assets consist of property, plant, equipment, and sewer and water line infrastructure assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Machinery and equipment	5-100
Improvements in water system	10-100
Improvements in sewer system	25-100

5. Restricted assets

Restricted assets in the Water and Sewer Fund consists of cash and equivalents set aside for customer deposits and employee benefits.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

I. Summary of significant accounting policies - (continued):

D. Assets, liabilities, and net assets or equity – (continued):

6. Compensated absences

Accumulated unpaid vacation and sick pay are not accrued by the Metropolitan District. Vacation time must be taken and is not allowed to accumulate. Sick and personal time is allowed for eight days per year and is not allowed to accrue.

7. Property taxes

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on the following December 1 and are payable on the following February 28. Genesee and Mt. Morris Townships collect the taxes for the District and distribute the taxes to the District. District property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available.

The Metropolitan District is permitted by charter to levy up to \$5.00 per \$1,000 (5 mills) of Taxable Value for general government services, upon real and personal property in their district in the Townships of Genesee and Mt. Morris. For the year ended June 30, 2004, the Beecher Metropolitan District levied 3.5979 mills.

	<u>Taxable Valuation</u>
Genesee Township	\$27,611,500
Mt. Morris Township	<u>59,724,977</u>
Total	<u>\$87,336,477</u>

8. Net assets – Equity displayed in three components as follows:

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets. The District has no debt related to capital assets.

Restricted – This consists of net assets that are legally restricted by outside parties, or by law through constitutional provisions or enabling legislation, or by District policy. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

E. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

II. Detail notes on all funds

A. Cash and cash equivalents and investments

Deposits:

The District's cash and cash equivalents consist of checking accounts and money market savings accounts. At year end, the carrying amount of the District's deposits was \$2,129,711, excluding petty cash of \$600. The bank balance was \$2,141,873. Of the bank balance, \$140,878, or 6.6% was covered by federal depository insurance, and the remaining amounts were not insured or collateralized.

The District has authorized the following depositories: Citizens Bank, Bank One, Standard Federal, and Republic Bank.

Investments:

State statutes and the District's investment policy authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments.

The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: Category 1 includes investments that are insured or registered, or for which securities are held by the District or its custodial agent in the District's name; Category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name; and Category 3 includes uninsured investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the District's name.

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase agreement (checking/sweep account)	\$ -0-	\$ -0-	\$ 74,129	\$ 74,129	\$ 74,129

B. Due from other governments

The due from other governments in the Water and Sewer Enterprise Fund consists of delinquent property tax receivables.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

II. Detail notes on all funds – (continued)

C. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 13,599	\$ -	\$ -	\$ 13,599
Total capital assets, not being depreciated	13,599	-	-	13,599
Capital assets, being depreciated:				
Buildings and improvements	225,412	-	-	225,412
Machinery and equipment	1,403,395	155,189	93,864	1,464,720
Improvement in water system	3,451,242	-	-	3,451,242
Improvement in sewer system	4,719,923	-	-	4,719,923
Total capital assets being depreciated	9,799,972	155,189	93,864	9,861,297
Less accumulated depreciation for:				
Buildings and improvements	208,715	1,791	-	210,506
Machinery and equipment	1,160,125	64,077	93,050	1,131,152
Improvement in water system	1,169,021	60,212	-	1,229,233
Improvement in sewer system	1,957,969	81,112	-	2,039,081
Total accumulated depreciation	4,495,830	207,192	93,050	4,609,972
Total capital assets, being depreciated, net	5,304,142	(52,003)	814	5,251,325
Business-type activities capital assets, net	\$5,317,741	\$ (52,003)	\$ 814	\$5,264,924

Depreciation expense was charged to functions/programs of the primary government as follows:

Business-type activities:
 Water and sewer

\$207,192

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

III. Other information

A. Retirement plans

1. Defined benefit pension plan description

The District participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The District has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole.

Members in the plan at December 31, 2003, the date of the latest actuarial valuation, is comprised of 15 active members, 1 inactive member, and 7 retirees and beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for general employees to retire after 25 years of service.

Election of early retirement is subject to reduction of benefits as outlined below. Generally, as provided by contractual agreement, participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by the sum of 2.5% times the final average compensation (F.A.C.). The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. The District and the employees contribute the necessary amounts to fund the actuarial determined benefits. The District makes employer contributions in accordance with funding requirements determined by MERS' actuary. Beginning with payroll periods after January 1, 1996, the District began making the employee contributions in accordance with employment contract provisions. Employer contributions were made in the amount of \$78,559 for the year ended June 30, 2004.

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Valuation date	December 31, 2003
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5%
Includes inflation at	4.5%
Cost of living adjustments (COLA)	up to 2.5%

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2004**

III. Other information – (continued)

A. Retirement plans – (continued)

1. Defined benefit pension plan description – (continued)

Annual pension cost

The District's Annual Required Contribution (ARC) and Annual Pension Costs (APC) for the year ended June 30, 2004 was \$82,334. There was no accumulated Net Pension Obligation (NPO) at June 30, 2004. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the years ended June 30, 2004, 2003, and 2002 are summarized as follows:

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	12/31/01	\$120,973	100.0%	\$ -
6/30/03	12/31/02	72,243	100.0	-
6/30/04	12/31/03	78,559	100.0	-

The Plan's Schedule of Funding Progress and Schedule of Employer Contributions can be found in the Required Supplementary Information section, located at page 15.

2. Deferred compensation plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The District's plan administrator, ICMA created the trust and placed the assets of the Plan within the trust. As a result, the Plan assets are not shown on the District's financial statements to reflect that the District no longer has any fiduciary or administrative responsibility for the Plan.

3. Defined contribution plan

The District has a defined contribution plan which covers General Division employees hired after January 1, 2004 through the Municipal Employees' Retirement System of Michigan (MERS). The District will contribution 10% and participants will contribute 2% of annual earnings. Payroll costs of all employees and plan participants amounted to \$777,520 and \$28,750, respectively. During the year, the District contributed \$-0-, however, the fiscal year 2004 contribution was paid after year-end. Participants made required contributions of \$575.

B. Risk management

The District is exposed to various risks at loss related to property loss, torts, errors and omission, and employee injuries. The District has purchased commercial insurance for coverage of all claims except employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The District pays unemployment claims on a reimbursement basis.

Required Supplementary Information

Beecher Metropolitan District
Required Supplementary Information
Analysis of Defined Benefit Pension Plan Funding Progress
June 30, 2004

Pension Plan
Schedule of Funding Progress

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b)</u>	<u>Unfunded (Over funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
6/30/02	12/31/01	\$3,027,109	\$3,284,787	\$257,678	92%	\$673,298	38%
6/30/03	12/31/02	3,118,578	3,694,605	576,027	84	673,109	86
6/30/04	12/31/03	3,361,003	4,023,914	662,911	84	730,818	91

Pension Plan
Schedule of Employer Contributions

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percent Contributed</u>
6/30/02	12/31/01	\$120,973	100.0%
6/30/03	12/31/02	72,243	100.0
6/30/04	12/31/03	78,559	100.0

October 28, 2004

To the Members of the Commission
Beecher Metropolitan District
1057 West Louis Avenue
Flint, Michigan 48505

We have audited the general purpose financial statements of the Beecher Metropolitan District for the year ended June 30, 2004, and have issued our report thereon dated October 28, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Beecher Metropolitan District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Beecher Metropolitan District are described in Note 1 to the general purpose financial statements. We noted no transactions entered into by the Beecher Metropolitan District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are sensitive because of their

significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the lives of fixed assets used in the Sewer and Water Enterprise Fund. We evaluated the lives used and feel that they are reasonable in relation to the proprietary fund-type financial statements taken as a whole.
- Management's estimates of the actuarial assumptions used to compute the actuarial accrued liabilities for the Commission's defined benefit pension plan administered by Municipal Employees Retirement System. Independent actuaries of the pension trust prepare these estimates. We evaluated the specific assumptions used and feel that they are reasonable in relation to the overall financial statement presentation.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Beecher Metropolitan District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principal to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management (primarily the Commission's Director) each year prior to retention as the Beecher Metropolitan District's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

No significant difficulties were encountered in performing the audit.

Internal Control

In planning and performing our audit of the financial statements of Beecher Metropolitan District, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design of operation of internal control that, in our judgment could adversely affect Beecher Metropolitan District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be material weakness.

Bank Reconciliations

During the audit, it was discovered that the payroll bank reconciliations had not been prepared since June 30, 2003. We recommend that the bank reconciliations be prepared on a monthly basis and given to the District Administrator for approval.

During the audit, we noted other opportunities for improvements. We offer the following for suggestions for your consideration. These comments do not affect the opinion issued on the financial statements dated October 28, 2004.

Capitalization Policy

The Commission does not have a formal capitalization policy. We recommend the Commission adopt a policy of capitalizing items with an individual value of greater than \$1,000 with a useful life of two or more years.

Voided Checks

During the review of cancelled checks it was noted that voided checks were not properly handled, even though void was written on them. We recommend that the signature portion of the check should be removed.

Operating Deficits

The last two fiscal years have resulted in a total net loss of \$1.2 million, with non cash expenses of depreciation totaling \$414,000. Overall cash and investment holdings have decreased \$956,000 over those same two years. The expenses related to the weep tile project have been a major reason for the losses. However, if those project expenses did not exist in 2003 and 2004, the net loss still would have been over \$500,000 and overall cash losses over 2003 and 2004 still would have been approximately \$370,000.

Water and sewer revenues and taxes are not keeping pace with operating costs and the District continues to fund operations with cash on hand. In addition, the billing structure is not providing sufficient cash flows to set aside money for capital replacement needs.

Given the cash flow needs of the agency, limits on the ability to levy additional taxes, and the continuing economic decline in the overall service area of the District, we believe that the District needs to comprehensively review and revise water and sewer rates. Adequate rates are necessary to ensure that the rate structure will provide the necessary funds to maintain operations and provide resources for future capital replacement needs. At a minimum, detailed cash projections should be developed to assess the future cash needs of the District, and that those projections be updated annually as the operating needs change (i.e. as the weep tile project ends). Those projections can then be used to assess the cash needs and the rate needed to meet those needs. We would strongly recommend that the District utilize the services of a third party billing consultant in order to develop a rate structure with specific components for operations and capital replacement.

The information is intended solely for the use of the Commission and management of the Beecher Metropolitan District and should not be used for any other purpose. We appreciate the assistance provided by the staff of the District in completing the audit and the opportunity to provide services to the District. We are available to assist the District in implementing any of the suggestions noted above.

BKR Dupuis & Ryden

Certified Public Accountants
Flint Office